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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
March 11 2005 ISSUE

¶1. Summary. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- February Manufacturing Trade Indicators Improve Slightly;
- Advice to Mbeki: Borrow and Invest More Would Yield Higher Growth;
- Reserve Bank Increases Gross Reserves by $508 Million;
- SA To Target Sources of FDI;
- Regulations Still A Problem;
- Tourism Creates 17,000 Jobs;

End Summary.

FEBRUARY MANUFACTURING TRADE INDICATORS IMPROVE SLIGHTLY

¶2. Current manufacturing trade conditions improved slightly in February according to the South African Trade Management Indices. Expectations remained strong, but unchanged compared to January's levels. The trade activity index, measuring current trading conditions, reached 48. This level is still below the expansionary 50, but above January's level of 47. Sales volumes, purchase and selling prices and new orders all reached expansionary levels, while inventories, employment, and order backlogs experienced reductions in activity. Trade expectations over the next six months remain optimistic and unchanged from January's level of 63. Traders have a very positive outlook for business, as increases in disposable income from tax cuts and moderate inflation are expected to have a positive impact on trading conditions. Expectations of strong sales volumes and new orders are the strongest in February, with over 70 percent of respondents expecting favorable conditions. Fifty percent of survey respondents expected no change in employment over the next six months. Source: Business Day, March 4; Standard Bank, SATMI, March 3.

ADVICE TO MBEKI: BORROW AND INVEST MORE WOULD YIELD HIGHER GROWTH

¶3. The International Investment Council, an informal Presidential advisory group, thinks that South Africa can reach six percent annual growth prior to the 2014 target date by increased borrowing and investing. According to the ten members of the Council, economic growth has been limited by a skills shortage and labor market rigidities, but South Africa is able to finance policies that would increase the growth rate and job creation at a faster rate. However, Pan African Advisory Services CEO Iraj Abedian warned that a more expansionary fiscal policy with a higher budget deficit and higher government borrowing for investment would be possible only if supply side constraints, such as the skills shortage and the lack of implementation capacity, were addressed. Government had to ensure that there was not a heavy regulatory burden on enterprises. Council members assert that companies should be given greater freedom to import skills and foreign exchange controls should be removed, as the strong currency showed that the international market, and investors, had confidence in the rand. The Council also emphasized the need for South Africa to explain the historical, economic and political rationale for black economic empowerment, which was often misunderstood abroad. Members of the council who attended the weekend talks were Tata Sons chairman Rattan Tata, Commerzbank's Martin Kolhaussen, DaimlerChrysler CEO Jurgen Schrempp, Astra Zeneca's Perce Barnevik, Mitsubishi's Masaki Miyaji, AngloGold Ashanti's Sam Jonah, Independent News chairman Sir Anthony O'Reilly, Mittal Steel's Lakshmi Mittal, Compahia Vale do Rio CEO Roger Agnelli, Pan African Advisory Services CEO Iraj Abedian, and Reuters Group chairman Niall Fitzgerald. Source: Business Day, March
¶7.

RESERVE BANK INCREASES GROSS RESERVES BY $508 MILLION

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¶4. The South African Reserve Bank (SARB) added $508 million (R3 billion) to the country's foreign gross reserves in February to push the overall total closer to $16 billion. This increase adheres to the SARB's pledge of not taking any aggressive action in the market to influence the strength of the rand. Although the bank more than doubled January's $234 million increase in gross reserves, analysts believe the SARB did not fully exploit this year's four percent appreciation in the rand against the dollar so far. In February, net reserves, or the international liquidity position, increased by $527 million to $12.2 billion. Ever since South Africa closed a $23.2 billion net open forward position (NOFP) in early 2003, the SARB has steadily built the reserves, culminating in the country receiving an investment upgrade from the world's largest credit ratings agency, Moody's Investors Service. A debate regarding the appropriate level of reserves for South Africa prompted the government to establish a committee to determine the foreign reserves target. The committee, which consists of SARB and National Treasury officials, will publish its recommendations later this year. The International Monetary Fund recommends that foreign reserves be able to cover a country's imports for three months. At $15.6 billion, South Africa has enough foreign currency to buy imports for three months, but some analysts advocate having six months' import cover. However, Andre Roux, the head of fixed income at Investec Asset Management, argued that there was no need to invest South Africa's savings in a currency that was fast losing its value. Dennis Dykes, the chief economist at Nedcor, said the bank's policy of gradual accumulation of foreign reserves implied a firm rand, low inflation and interest rates, and strong demand for imports in the future. Source: Business Report and Business Day, March 8.

SA TO TARGET SOURCES OF FDI

¶5. The International Marketing Council, responsible for promoting South Africa abroad, has identified countries to target on as potential sources of foreign investment in South Africa. Focused marketing of South Africa should be aimed at the United States, United Kingdom, China, India, Japan, the Netherlands, France, Germany and Brazil. The Council recommends France because it provides a launch pad into French-speaking countries all over the world and Brazil because of its position in Latin America. A marketing campaign would be conducted in these countries to promote South Africa as an investment destination with the bulk of the council's R18 million ($3.1 million, using 5.8 rands per dollar) budget being concentrated on mass media communication and advertising. The council noted that South Africa had consistently underperformed its potential in terms of foreign direct investment (FDI) flows and expects that global foreign direct investment to increase over the next several years. Global growth should remain high with increased revenues and net profits for the top 500 companies in the United States and the 1000 largest Asian transnational corporations. The agency has a budget of R17 million ($2.9 million) this year: R7 million from the state, R5.3 million from broadcasters and R4.8 million from print media. A cap of 25 percent had been placed on administration costs relative to total income. The agency's board has so far approved 63 media projects. Source: Business Day March 9.

REGULATIONS STILL A PROBLEM

¶6. According to the latest annual Grant Thornton survey of international business owners, business growth in South Africa was hampered by regulations and red tape. The construction industry appeared to be most affected, with 68 percent of business owners reporting that red tape was their biggest growth constraint. It was followed by the services sector with 44 percent and the manufacturing sector with 38 percent. The retail sector was least affected, with just 28 percent of business owners reporting red tape as a growth barrier. Overall, 41 percent of business owners cited regulation and red tape as the biggest business constraint, while the availability of a skilled workforce came a close second, with 37 percent. On a regional basis, 68 percent of business owners in Gauteng listed red tape and regulation as their greatest constraint, followed by 54 percent in Port Elizabeth and East London, 42 percent in Durban and 38 percent in Cape Town. The concerns of South African business owners echo those of business owners around the world. The study found that 36 percent all respondents saw regulation and red tape as the biggest threat to business expansion for the second consecutive year. Source: Business Report, March 9.

TOURISM CREATES 17,000 JOBS

¶7. The Tourism Enterprise Program (TEP), initially funded by private enterprise through the Business Trust, created over 17,000 jobs over the past four years. The TEP received funds from The Business Trust and The Department of Environmental Affairs and Tourism (DEAT) to continue its work for an additional three years. Created in 2000 and expected to last for four years, the project's aim was to aid the expansion of small, medium and micro enterprises (SMME) in the tourism economy, resulting in job creation and income generating opportunities. Initial four-year targets for TEP were set by The Business Trust, which included the creation of a minimum of 10,000 jobs, the facilitation of 450 million rand of incremental revenues for small businesses and measurably assisting 1,000 enterprises to grow. Four years later, these initial targets were exceeded, with over 2,000 small enterprises and over 17,000 jobs created. TEP's objectives for the next phase include assisting 2,000 small enterprises to create an additional 20,000 jobs, while achieving a target of 1.2 billion rand in incremental revenue for these enterprises. Source: I-Net Bridge, March 10.

FRAZER